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Subject: Property, Plant, and Equipment and Operating Materials and Supplies

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| [TOC](#) | [Preface](#) | [Chapter1](#) | [Chapter2](#) | [Chapter3](#) | [Chapter4](#) | [Chapter5](#) |
[Chapter6](#) | [Chapter7](#) | [Chapter8](#) | [AppendixA](#) | [AppendixB](#) | [AppendixC](#) |
[ALL](#) |

Chapter 1. Overview of Capitalized Property, Plant, and Equipment

1.1 Overview

1.1.1 The National Aeronautics and Space Administration's programs and projects are substantially research and development (R&D) initiatives that use Property, Plant, and Equipment (PP&E) to support NASA's missions, goals, and objectives.

1.1.2 The identification, valuation, recognition, and reporting of PP&E are an integral part of NASA's ability to generate accurate and reliable financial statements and management reporting while ensuring compliance with accounting standards and Federal financial reporting requirements. This NPR prescribes the accounting standards and policy for recognizing and reporting PP&E and OM&S, including the application of NASA's capitalization criteria. NASA utilizes the Asset Accounting module within SAP, the Agency's enterprise resource management system, to financially account for and report capitalized PP&E.

1.2 Categories of PP&E

1.2.1 PP&E is defined as tangible assets that (1) have an estimated useful life of two or more years, (2) are not intended for sale in the ordinary course of business, and (3) are intended to be used or available for use by the entity.

1.2.2 Two categories of PP&E have been defined for accounting and reporting

purposes.

a. General PP&E. General PP&E consists of tangible assets that meet NASA's capitalization criteria. General PP&E includes the following categories:

(1) Real Property. Land, land rights, buildings, other structures and facilities, construction in process, and capital improvements/modifications.

(2) Personal Property. General equipment, Work-in-Process (WIP), capital improvements/modifications, and theme assets.

(3) Capital Leases. Leases and leasehold improvements.

(4) Internal Use Software.

b. Stewardship PP&E. Stewardship PP&E consists of tangible items of PP&E that are not capitalize because their value may be indeterminable or it is meaningless to capitalize them due to its unique nature. Stewardship PP&E includes the following categories:

(1) Heritage Assets. Heritage Assets are PP&E of historical, natural, cultural, educational significance, artistic importance, or significant architectural characteristics. Heritage Assets are not capitalized.

(2) Stewardship Land. Stewardship Land is land and land rights other than that acquired for or in connection with General PP&E, land acquired via the public domain, or land acquired at no cost. Stewardship land is not capitalized.

1.3 Capitalization of PP&E

1.3.1 Capitalization Criteria. The following capitalization criteria apply to general PP&E, including acquisitions, fabrications, modifications, and improvements. NASA shall capitalize individual items of PP&E acquired by construction, purchase, transfer, donation, or exchange, which meet all of the following criteria:

a. Have an acquisition cost of \$100,000 or more (except internal use software which has a capitalization threshold of \$1,000,000).

b. Have an estimated useful life of two years or more (except internal use software with a useful life of five years).

c. Are not intended for sale in the ordinary course of operations.

d. Have been acquired or constructed with the intention of being used, or being available for use, by the Agency.

e. Have a current or planned alternative future use on another project with a separate objective. Institutional acquisitions that are not defined as maintenance are presumed to have an alternative future use.

1.3.2 Items not classified as General PP&E on NASA's financial statements:

a. Items that the Agency has a reversionary interest. For example, the Agency sometimes retains an interest in PP&E acquired with grant money in the event that the recipient no longer uses the PP&E in the activity for which the grant was originally provided and the PP&E reverts to the Agency.

- b. Items classified as Heritage Assets or Stewardship Land.
- c. Items that should be expensed as R&D costs.
- d. Items classified as Other Assets. Property surplus to the needs of the Agency are removed from capital accounts, and no additional depreciation is taken as assets await final disposition.

1.3.3 Items not meeting the above capitalization criteria or those specifically identified as prototypes, test articles, and Special Tooling (ST) and Special Test Equipment (STE) are considered R&D as defined by Accounting Standards Codification (ASC) 730, Research and Development, and FASAB Technical Release 7, which provide the standards for accounting for R&D costs versus capital costs. ASC 730 states that the costs of materials and equipment or facilities that are acquired or constructed for R&D activities and that have an alternative future use shall be capitalized as tangible assets when acquired or constructed. However, the costs of materials, equipment, or facilities that are acquired or constructed for a particular research and development project that have no current or planned alternative future use and, therefore, provide no separate economic values are defined as R&D costs.

1.3.4 Items identified as R&D shall be expensed at the time the costs are incurred during acquisition, fabrication, or construction.

1.3.5 Identification of Items with an AFUQ, NASA Form 1739.

1.3.5.1 NASA's programs and projects are primarily R&D. However, some PP&E may be used to support other current or future projects (e.g. the assets could be used to support other/multiple projects and programs currently or in the future). Identification of these items and their capitalization determination will be accomplished through the AFUQ, NASA Form 1739.

1.3.5.2 AFUQ, NASA Form 1739 shall be completed for all identified PP&E acquisitions, fabrications, or improvements that meet the \$100,000 threshold, including pieces that will be assembled into an end item that will be \$100,000 or more. The NASA Form 1739 will identify each acquisition/project as capital or non-capital in accordance with the capitalization criteria outlined above.

1.3.6 Identification and Tracking of Capital PP&E.

1.3.6.1 Assets identified as capital on the AFUQ, NASA Form 1739 shall be segregated for identification and tracking through the establishment of unique WBS elements with capital asset indicators. This will allow for the separate identification, funding, and accumulation of capital costs associated with the capital acquisition, fabrication, or modification within NASA's official accounting system.

1.3.6.2 Joint costs that are commonly used to support the production of multiple assets within a single project that cannot be directly traced to each final asset shall be directly traced to the project via the establishment of unique WBS element(s) with a capital asset indicator(s) at the project level. Joint or common project costs, as well as other indirect costs that cannot be directly traced to the project or capital asset in an economically feasible manner, will be allocated to the final asset(s) based on a reasonably supportable allocation methodology. For example, inspection or survey costs that cannot be traced to a specific end item may be allocated to the final asset based upon percentage of total inspections or surveys, square footage, or project size.

1.3.6.3 Assets or projects identified as capital, but where a unique WBS was not previously established, shall be capitalized only with the prior approval of the Agency Director of Financial Management and supporting documentation as required in Section 2.7.

1.4 PP&E Life Cycle

1.4.1 Purpose. This section describes the PP&E life cycle from a financial accounting perspective. The descriptions in the following paragraphs provide a summary of the major PP&E life cycles and financial requirements for capital PP&E identification, cost accumulation, reporting, receiving, and disposal.

1.4.2 PP&E Life Cycle Phases. The following sections describe the major phases of the PP&E life cycle:

1.4.2.1 Planning. Identifying planned acquisitions, fabrications, or modifications of NASA-owned PP&E shall be evaluated through the completion of the AFUQ, NASA Form 1739 by the program/project manager and the Center Office of the Chief Financial Officer (OCFO) representative to determine if the PP&E meets NASA's capitalization criteria. Those PP&E items that meet established capitalization criteria will be capitalized as General PP&E and segregated for identification and tracking through the establishment of unique WBS elements with capital asset indicators.

1.4.2.1.1 The unique WBS element(s) shall be established with a capital asset indicator in NASA's Metadata Manager (MdM). The five asset indicator attributes in MdM, which are based on the type of acquisition and information provided on the AFUQ, NASA Form 1739, are:

- a. Fabricated equipment.
- b. Purchased equipment.
- c. Real property.
- d. Software (Internal use software \$1M and over).
- e. Theme assets.

1.4.2.2 Acquisition, Fabrication, or Modification. Acquisition, fabrication, or modifications of General PP&E may occur through a variety of methods. These may include simplified acquisitions, vendor acquisitions, fabrication, construction, and/or modifications. General PP&E may also be transferred between contractors and NASA, donated, transferred from other Federal Agencies, or acquired through Capital Lease.

1.4.2.2.1 Costs incurred by NASA or its contractors for an asset meeting the capitalization criteria shall be identified and tracked using a separate unique WBS element with a capital asset indicator.

1.4.2.2.2 Identified capital costs shall be accumulated against the unique WBS element as an Asset Under Construction (AUC) and recorded as WIP. These capital costs will be transferred from WIP at the time of delivery or completion and settled against a final asset or sub-asset(s) as General PP&E in the general ledger.

1.4.2.3 Disposition. General PP&E identified as excess (permanently not in use) to the needs of NASA and/or identified as no longer in operation shall be removed from the

General PP&E general ledger accounts and recognized as Other Assets in accordance with SFFAS No. 6 until the asset is sold, scrapped, excessed, or decommissioned.

1.5 Reconciliation and Reporting

1.5.1 Reconciliations and validations shall be performed, documented, and reviewed in accordance with the Continuous Monitoring Program (CMP) requirements per NPR 9010.2, Financial Management Operating Procedures and Continuous Monitoring Program.

1.5.2 CMP activities and supporting work papers shall be maintained by the Center Chief Financial Officer (CFO)/Deputy Chief Financial Officer (Finance) (DCFO)(F) and will be available for review upon request or as required in the CMP.

1.6 Roles and Responsibilities

1.6.1 The Center Program/Project Manager shall:

- a. Inform the Agency OCFO Property Branch of acquisition strategy meetings.
- b. Submit to the Center OCFO the completed AFUQ, NASA Form 1739 when a potential capital acquisition, fabrication, or modification has been identified per the requirements set forth in NPR 7120.5, NASA Space Flight Program and Project Management Requirements, NPR 7120.7, NASA Information Technology and Institutional Infrastructure Program and Project Management Requirements, NPR 7120.8, NASA Research and Technology Program and Project Management Requirements, and NPR 8800.15, Real Estate Management Program.
- c. Ensure a unique WBS element is created within the project WBS structure for assets meeting the capitalization criteria as identified through the use of AFUQ, NASA Form 1739.
- d. After Center CFO approval, Ensure that the completed and approved AFUQ, NASA Form 1739 is attached to the MdM request using the attachment feature in MdM.
- e. Create Purchase Requisitions (PRs) to fund the acquisition, fabrication, or modification of identified PP&E meeting the capitalization criteria ensuring that the PRs are funded by the unique WBS element with a capital asset indicator.

1.6.2 The Agency OCFO shall:

- a. Review and approve the MdM requests for unique WBS elements with a capital asset indicator for assets identified as meeting the capitalization criteria through the review of the attached AFUQ, NASA Form 1739.
- b. Develop, in conjunction with procurement, project management personnel, and Center finance personnel, the financial policies and procedures and standard financial management reporting requirements to be included in solicitations and contracts to support separate cost reporting of each identified capital asset.

1.6.3 The Center OCFO shall:

- a. Ensure that adequate financial controls are in place and financial records and reports accurately reflect the status and value of capital PP&E.

- b. Ensure that adequate supporting documentation is maintained and is readily available to support audit requests and other quality control reviews. (See Section 2.7 of this NPR.)
- c. Ensure that the CMP activities are completed in accordance with NPR 9010.2, Financial Management Operating Procedures and Monitoring Program.
- d. Work with project managers, procurement officers, resource managers, real property officers, and logistics personnel to review project work that will procure, fabricate, construct, or improve capital assets to ensure all General PP&E is properly identified and unique WBS elements are created so that the assets can be accurately valued and reported.
- e. Review and approve all submitted AFUQ, NASA Form 1739 for PP&E acquired or fabricated beginning October 1, 2007, to ensure that all identified, planned PP&E comply with AFUQ and NASA capitalization requirements and that unique WBS elements have been identified for PP&E that meet capitalization requirements.
- f. Provide the final capitalization determination for all identified PP&E based upon review and approval of the AFUQ, NASA Form 1739.
- g. Maintain the original completed and approved AFUQ, NASA Form 1739.
- h. Ensure that each identified asset meeting the capitalization criteria has a unique WBS and that the correct capital asset indicator attribute has been assigned to the Mdm record.
- i. Work in close liaison with Agency OCFO, procurement, and project management personnel to develop the financial management reporting requirements and instructions to be included in solicitations and contracts that support the separate reporting of each item of General PP&E.
- j. Review identified capital assets recorded as AUCs and ensure that the AUCs are settled to a final asset or sub-asset(s) upon delivery or completion and the value of the final asset or sub-asset(s) is properly supported.
- k. Review contractor requests to purchase PP&E in order to ensure that a unique WBS element(s) and separate reporting of individual PP&E has been established.
- l. Identify costs to be capitalized and maintain financial records for each capital facility project in progress. These records are the source for entries to the general ledger WIP.

1.6.4 Center Procurement Officers shall support the Center OCFO in identifying and reporting identified capital PP&E through implementation of the Federal Acquisition Regulation (FAR), 48 C.F.R. ch. 1 and the NASA FAR Supplement (NFS), 48 C.F.R. pts. 1801-1854 in the following areas:

a. Prior to Contract Award.

(1) Ensure that the types and approximate quantities of Government furnished property and contractor acquired property are identified in solicitations and are discussed in procurement plans and procurement strategy meetings, whereby Center OCFO representatives are included in the procurement planning process (Acquisition Planning, 48 C.F.R. pt. 7 and NFS, Acquisition Planning, 48 C.F.R. pt. 1807) where applicable.

(2) Ensure that NASA technical, program control, procurement, financial, and resource

personnel have taken part in developing the reporting structures as defined in NPD 9501.1 for solicitations that include the acquisition, fabrication, or construction of Government property.

(3) Ensure that the appropriate solicitation instructions, provisions, and contract clauses are included in solicitations and contracts, in order that (per FAR Government Property, 48 C.F.R. pt. 45 and NFS Government Property, 48 C.F.R. pt. 1845):

(a) The solicitation identifies all Government property that may be made available for performance of the contract.

(b) Contractors are required to identify any Government property desired and required for performance of the effort.

(c) The resulting contract includes a listing of all Government property supplied for use under the contract.

(d) Contractors are required to obtain approval for the purchase or fabrication of property for which the Government will have title, unless the property is a deliverable itemized under the contract or a component of or material for that deliverable.

(e) Support the cognizant financial management and project management personnel in the development of contractor cost reporting requirements (where cost reporting is required) that include a separate reporting category for each identified capital asset (NFS, NASA Contractor Financial Management Reporting, 48 C.F.R. subpt. 1842.72 and NPR 9501.2, NASA Contractor Financial Management Reporting).

(4) For contracts that do not require cost reporting, as defined in NPD 9501.1, NASA Contractor Financial Management Reporting System, create a separate contract line item or unique task/delivery order for each capital asset for which the Government will have title.

(5) Require that invoices/vouchers or other supplemental cost reports or task orders/delivery orders are submitted by contract line item, clearly identifying each item of PP&E.

b. After Contract Award.

(1) Review for approval all contractor requests to purchase and/or fabricate PP&E which the Government will have title to in accordance with the FAR Government property clause, and forward approved requests with an expected acquisition cost equal to or greater than \$100,000 to the Center DCFO in accordance with NFS Government Property, 48 C.F.R. pt. 1845.

(2) For contracts requiring financial management and cost reporting, ensure that contractors report approved PP&E purchases and/or fabrications that have been determined to meet the capitalization criteria as separate line items (as initially established in the contract).

(3) For firm fixed price contracts, ensure that the invoice, and/or progress payment requests, or other interim payment requests contain the contract line item level detail to allow proper costing of each item of PP&E.

1.6.5 The Center Real Property Accountable Officer shall:

a. In consultation with the Center Facility Utilization Officer or Facility Utilization Board,

notify the Center CFO/Center DCFO(F) when there is a change in the status of real property for which the Center is accountable (including contractor-held real property), including new construction, capital improvements, or changes in operational status such as standby, mothballed, or abandoned.

b. Assist the Center CFO/DCFO(F) as requested, with the reconciliation of real property reports to the accounting system.

[TOC](#)	[Preface](#)	[Chapter1](#)	[Chapter2](#)	[Chapter3](#)	[Chapter4](#)
[Chapter5](#)	[Chapter6](#)	[Chapter7](#)	[Chapter8](#)	[AppendixA](#)	
[AppendixB](#)	[AppendixC](#)	[ALL](#)			

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